



ANTONIO R. VILLARAIGOSA
Mayor

Commission
LEE KANON ALPERT, *President*
EDITH RAMIREZ, *Vice President*
FORESCEE HOGAN-ROWLES
JONATHAN PARFREY
THOMAS S. SAYLES
BARBARA E. MOSCHOS, *Secretary*

H. DAVID NAHAI,
Chief Executive Officer and General Manager

October 8, 2009

The Honorable City Council
City of Los Angeles
Room 395, City Hall
Los Angeles, California 90012

Dear Members:

Subject: Issuance of \$980 Million of Water System Revenue Bonds

Pursuant to Charter Section 609, enclosed for approval by your Honorable Body is Resolution No. 4811, adopted by the Board of Water and Power Commissioners (Board) on October 6, 2009, approved as to form and legality by the City Attorney, authorizing the issuance of up to a maximum of \$980 million of Water System Revenue Bonds, to finance a majority of the Water System's capital improvement program for Fiscal Years 2009-2010 and 2010-2011. As directed by the Board, transmitted to you are supporting documents.

If there are any questions regarding this item, please contact Ms. Winifred Yancy, Manager – Government and Neighborhood Relations, at (213) 367-0025, or Mr. Mario Ignacio at (213) 367-0690.

Sincerely,

Barbara E. Moschos
Board Secretary

BEM:rg

Enclosures: LADWP Resolution
Board Letter
Chief Financial Officer's Report
Letter from Public Resources Advisory Group
CAO Report

Water and Power Conservation ... a way of life

111 North Hope Street, Los Angeles, California 90012-2607 Mailing address: Box 51111, Los Angeles 90051-5700
Telephone: (213) 367-4211 Cable address: DEWAPOLA



c/enc: Mayor Antonio Villaraigosa
Ms. Jan C. Perry, Chair, Energy and the Environment Committee
Mr. Gerry F. Miller, Chief Legislative Analyst
Mr. Miguel A. Santana, City Administrative Officer
Mr. Rafael Prieto, Legislative Analyst, CLA
Mr. William R. Koenig, Chief Administrative Analyst
Ms. Winifred Yancy
Mr. Mario Ignacio

**INITIAL RESOLUTION
OF THE BOARD OF WATER AND POWER COMMISSIONERS
OF THE CITY OF LOS ANGELES**

**Authorizing the Borrowing of Up to \$980,000,000 Pursuant to Section 609 of
The Charter of The City of Los Angeles Through the Issuance of
Revenue Bonds Payable from the Water Revenue Fund**

Resolution No. 4811

**BE IT RESOLVED BY THE BOARD OF WATER AND POWER COMMISSIONERS OF
THE CITY OF LOS ANGELES:**

Section 1. This Board of Water and Power Commissioners of the City of Los Angeles (the "Board") hereby determines that the public interest and necessity demand that the Department of Water and Power of the City of Los Angeles (the "Department") should borrow money pursuant to Section 609 of The Charter of The City of Los Angeles (the "Charter") for the purposes specified in Section 3 of this Resolution, and should issue and sell revenue bonds as herein provided (the "Bonds") payable from the Water Revenue Fund to evidence the indebtedness created by such borrowing.

Section 2. The Board hereby authorizes the issuance of the Bonds pursuant to the provisions of Section 609 of the Charter for the purposes specified in Section 3 of this Resolution.

Section 3. The Bonds are to be issued for the purpose of acquiring, constructing, installing, reconstructing, replacing, extending and/or improving water, water rights of every nature, lands, rights-of-way, sites, facilities and/or property used for the capture, transportation, distribution and/or delivery of water for the benefit of the City of Los Angeles (the "City"), its inhabitants and its customers including, without limitation, the acquisition of all necessary or convenient easements and other rights with respect to land, water transportation facilities and interests therein and rights thereto, and the acquisition, construction and/or installation of all necessary or convenient facilities, structures, machinery, equipment, apparatus, materials and other property and property rights in connection with the Water Assets (as defined in the Charter).

Section 4. The maximum principal amount of the Bonds authorized by this Resolution is

NINE HUNDRED EIGHTY MILLION DOLLARS (\$980,000,000)

and said Bonds are to be issued in one or more series or subseries at such time or times as the Board may determine.

Section 5. The maximum term for which any Bond is to run is forty-five years from the date of issuance of such Bond.

Section 6. The maximum interest cost to be incurred through the issuance of any Bond shall be twelve percent (12%) per annum. The manner of determining interest cost for the purpose of determining whether such interest cost is within such maximum is to ascertain the annual rate, compounded semiannually, such that the amounts payable on the Bond on the respective

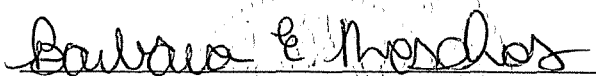
principal (including mandatory sinking fund redemptions) and interest payment dates discounted at such rate to the original issue date of the Bond is equal to the purchase price (net of accrued interest) of the Bond.

Section 7. This Board has received a report (the "Report") of the Chief Financial Officer of the Department stating that such officer has determined that a private sale of the Bonds will be of benefit to, and in the financial interests of, the Department and providing the reasons therefor. As authorized by subsection (d) of Section 609 of the Charter and Section 11.28.4 of Ordinance No. 172,353 of the City, as amended, constituting Article 6.5 of Chapter 1 of Division 11 of the Los Angeles Administrative Code (the "Procedural Ordinance"), this Board hereby authorizes the private sale of each series and subseries of the Bonds to one or more of the firms included in the team of underwriting firms selected by the Board pursuant to Section 11.28.4(b) of the Procedural Ordinance as such team is composed at the time of the sale of such series or subseries; provided, however, that underwriters' discount (exclusive of initial issue discount) with respect to the Bonds shall not exceed one percent of the principal amount of the Bonds and any initial issue discount with respect to the Bonds shall not exceed ten percent of the principal amount of the Bonds to which such initial issue discount shall apply.

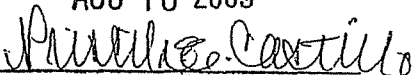
Section 8. The authorization of the issuance of the Bonds made by this Resolution is in addition to any and all other authorizations of the issuance of bonds on account of the Water System heretofore made by resolution of this Board.

Section 9. The Secretary of this Board shall forthwith transmit certified copies of this Resolution, together with the Report of the Department's Chief Financial Officer, to the offices of the Mayor, the City Clerk and the City Administrative Officer (previously the Director of the Office of Administrative and Research Services) pursuant to Subsections (a) and (d) of Section 609 of the Charter and Sections 11.28.2 and 11.28.4 of the Procedural Ordinance.



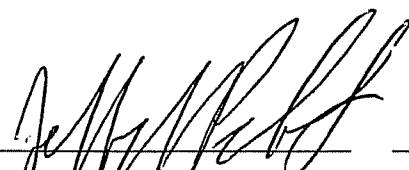
I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a resolution adopted by the Board of Water and Power Commissioners of the City of Los Angeles at its meeting held OCT 06, 2009.


Secretary

APPROVED AS TO FORM AND LEGALITY
CARMEN A. TRUTANICH, CITY ATTORNEY

AUG 10 2009
BY 
PRISCILA E. CASTILLO
DEPUTY CITY ATTORNEY

LADWP BOARD APPROVAL LETTER

| | |
|--|---|
| TO: BOARD OF WATER AND POWER COMMISSIONERS | DATE: September 25, 2009 |
| <div style="display: flex; justify-content: space-around; align-items: flex-start;"><div style="text-align: center;"> _____ RAMAN RAJ Chief Operating Officer</div><div style="text-align: center;"> _____ H. DAVID NAHAI Chief Executive Officer and General Manager</div></div> <div style="margin-top: 20px; text-align: center;"> _____ JEFFERY L. PELTOLA Chief Financial Officer</div> | SUBJECT: <p style="text-align: center;">Authorization to Issue up to \$980 Million of Water System Revenue Bonds</p> |
| | FOR COMMISSION OFFICE USE: |
| CITY COUNCIL APPROVAL REQUIRED: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> | IF YES, BY WHICH CITY CHARTER SECTION: 609 |

PURPOSE

Transmitted herewith for your consideration is Resolution No. 4811, which, if adopted, would authorize the issuance of up to a maximum of \$980 million of Water System Revenue Bonds (Bonds), payable out of the Water Revenue Fund. The Bonds will be used to finance a majority of the Water System's capital improvement program for the Fiscal Years 2009-2010 and 2010-2011.

Resolution No. 4811 is an "initial resolution" of the Board of Water and Power Commissioners (Board), setting forth the purpose for future indebtedness and establishing the maximum limit as to principal, interest costs, and term. Resolution No. 4811 also provides for the private sale of the Bonds to one or more of the firms included in the team of underwriting firms selected by the Board pursuant to the Procedural Ordinance. The Financial Services Organization (FSO) will present "supplemental resolutions" that will authorize the specific terms and conditions for the Bonds, including the lead underwriters that will be selected from among the Department's investment banking team members and the principal financing documents related to the Bonds, at a future Board meeting.

BACKGROUND

The Water System's five-year financial plan for Fiscal Year 2009-2010, approved by the Board on June 16, 2009, reflected a need to borrow approximately \$980 million over the next two years in order to support its planned \$1.17 billion capital improvement program over the same period. This authorization will provide FSO the flexibility to issue the

Bonds either on a combined basis or separately within the current or next year, depending on the rate of capital spending. If separately, the authorization will facilitate the issuance of the Bonds for the second fiscal year expeditiously.

The American Recovery and Reinvestment Act (ARRA) of 2009 provides direct funding and subsidies to state and local governments. One of the programs is the New Taxable Bond Option also called Build America Bonds (BAB), where governmental entities can elect to issue taxable bonds in lieu of tax exempt bonds for governmental purposes for bonds issued in 2009 and 2010. The Federal Government would reimburse the issuer 35 percent of the interest payment for BAB. There is no limitation on the amount of BAB that can be issued; however, the program requires that BAB be issued not later than December 31, 2010. Based on the fixed-rate BAB transactions completed since April 2009, the net interest cost appears favorable when compared to tax-exempt interest cost. The current interest rate environment and the BAB program provide the Water System with an opportunity to lower its effective interest cost by issuing bonds to finance Fiscal Years 2009-2010 and 2010-2011 capital programs at historically favorable interest rates.

The proceeds from the issuance of these bonds will be deposited into the Construction Fund of the Water System and would be drawn down to fund a portion of its capital improvement program.

Both the Department's Chief Financial Officer (CFO) and Public Resources Advisory Group (PRAG) recommend the Bonds be sold on a negotiated basis (i.e., private sale). The CFO's Report in connection with the proposed private sale, as required by Charter Section 609, is attached. Also attached is the report setting forth PRAG's opinion with respect to a private sale.

COST AND DURATION

The total estimated costs for a \$980 million bond issue, including principal and interest, is approximately \$1,762,600,000.00 over 30 years based on current interest rates for tax-exempt bonds and BAB. The debt issuance costs are estimated at \$7,781,000.00 representing 0.79 percent of the total bond issue which includes underwriter's discount, bond counsel, financial advisor, and rating agencies fees.

FUNDING SOURCE

Financial transactions for principal and interest payments are budgeted and funded under the Water Revenue Fund:

| | |
|----------------------|---|
| Fiscal Year: | Fiscal Year 2009-2010 through Fiscal Year 2013-2014 |
| Functional Item No.: | 303-3200 |
| Location in Budget: | Joint Book, FI details tab, page 16 of 55 |

FISCAL IMPACT STATEMENT

Resolution No. 4811 would increase future principal and interest costs of the Water Revenue Fund by approximately \$58,753,000.00 annually.

ENVIRONMENTAL DETERMINATION

In accordance with the California Environmental Quality Act (CEQA), it has been determined that this action is exempt pursuant to the General Exemption described in the CEQA Guidelines, Section 15061(b)(3). General Exemptions apply in situations where it can be seen with reasonable certainty that there is no possibility that the activity in question may have a significant effect on the environment.

CONFLICT OF INTEREST STATEMENT

All conflict of interest procedures were followed. No conflict of interest issues were identified.

RECOMMENDATION

Mayoral and City Council approval are required.

In accordance with the Mayor's Executive Directive No. 4, the City Administrative Officer's Report is attached.

It is recommended that your Honorable Board adopt Resolution No. 4811.

MCI/JD:jms

Attachments

c/att: H. David Nahai

Raman Raj

Richard M. Brown

Aram Benyamin

James B. McDaniel

Cecilia K.T. Weldon

Jeffery L. Peltola

Maria Sison-Roces

Mario C. Ignacio

Judith Daco

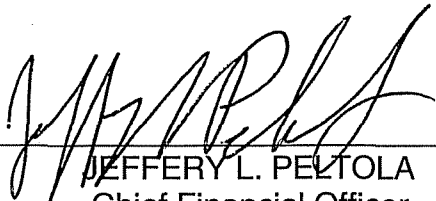
CHIEF FINANCIAL OFFICER'S REPORT

Private Sale of Los Angeles Department of Water and Power, Water System Revenue Bonds

This report is being delivered in connection with the proposed private sale of Los Angeles Department of Water and Power, Water System Revenue Bonds (Bonds), pursuant to Charter Section 609.

The Water System's financial plan for Fiscal Year 2009-2010, approved by the Board of Water and Power Commissioners (Board) on June 16, 2009, indicates a need to borrow approximately \$980 million over two years, starting in Fiscal Year 2009-2010, to support its planned \$1.17 billion capital improvement program over the same period. Depending on the rate of capital spending, the authorization will provide the Financial Services Organization (FSO) the flexibility to issue the Bonds either on a combined basis or separately within the current or following year. If separately, the combined authorization will facilitate the issuance of the Bonds for the second fiscal year expeditiously. The current interest rate environment also provides the Water System with an opportunity to lower its effective interest cost by issuing bonds to finance Fiscal Years 2009-2010 and 2010-2011 capital programs at historically favorable interest rates.

Due to the size of the proposed bond issue, efforts to provide a meaningful opportunity for minority, women and other business enterprises to participate in the sale of the Bonds consistent with the goals set forth in the Department's Outreach Program, the desire to coordinate the timing of what continues to be a volatile interest rate environment, and the desire to implement a retail order period aimed at reducing borrowing costs, I have determined that a private sale of the Bonds would be of benefit to the Department and recommend the private sale of the Bonds as provided in the attached Resolution No. 4811.



JEFFERY L. PELTOLA
Chief Financial Officer



40 RECTOR STREET, SUITE 1600
NEW YORK, NEW YORK 10006
TEL: (212) 566-7800 | FAX: (212) 566-7816

PUBLIC RESOURCES ADVISORY GROUP

August 13, 2009

Mr. Mario Ignacio
Assistant CFO and Treasurer
Department of Water and Power of
the City of Los Angeles
111 North Hope Street
Los Angeles, CA 90012

Dear Mr. Ignacio:

The Department of Water and Power of the City of Los Angeles (the "Department") has requested that Public Resources Advisory Group ("PRAG"), as financial advisor to the Department, discuss the merits of a negotiated bond transaction for the issuance of new money related to the Department's Water System ("Water Bonds"). It is our understanding that the sales of Water Bonds will equal up to \$980 million and may be issued as traditional Water System Revenue Bonds and/or Build America Bonds.

The benefits of negotiated versus competitive sales have been analyzed by municipal market participants for many years. The debate will continue into the future due to the rare frequency (or possible absence) of simultaneous negotiated and competitive bond pricings for the same issuer and same credit. In general, however, PRAG believes that all things being equal a competitive sale will provide an issuer with the lowest cost of funds for the majority issuances, but not necessarily in all cases. Other important factors and market circumstances have a pronounced affect on the decision for issuers to negotiate bond sales. The following are some of the factors that the Department faces with the upcoming sales of Water Bonds that support the decision to issue bonds on a negotiated basis:

- Negotiated sales will allow for the Department to provide meaningful roles for local and regional firms;
- Negotiated sales permit the use of retail order periods and retail investors can be an important factor in the market, as the retail buyer is less sensitive to price compared to the institutional investor;
- Negotiated sales allow the Department to structure specific portions of the issuance to meet investor demand (such as, bifurcated coupons, callable premium bonds, non-callable bonds, specified par amounts, non-traditional couponing and similar features);
- Negotiated bond sales allow the Department to attempt to avoid the recent high volatility in the public capital markets, resulting from wide shifts in credit spreads, interest rates and investor demand, through increased flexibility in timing the pricing of debt.

INDEPENDENT FINANCIAL ADVISORS



In our opinion, the factors above should be considered by the Department when making the decision to issue bonds on a negotiated sale basis. I hope the foregoing meets your needs. Please call Ed Soong 310-477-1453 or me at 212-566-7800 if you have any questions on this matter.

Sincerely,

A handwritten signature in cursive script that reads "William W. Cobbs".

William W. Cobbs
Chairman

0220-04522-0000

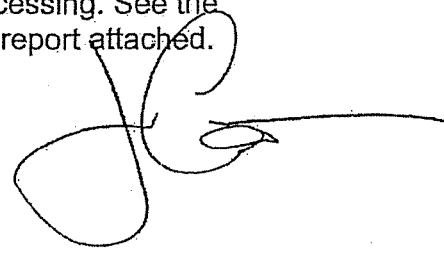
TRANSMITTAL

| | | |
|--|------------------|------------------|
| TO H. David Nahai, General Manager Department of Water and Power | DATE | COUNCIL FILE NO. |
| FROM The Mayor | COUNCIL DISTRICT | |

**Proposed Issuance of \$980 Million
of Water System Revenue Bonds**

Transmitted for further processing. See the
City Administrative Officer report attached.

MAYOR



MASOAV:10100050T

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: September 15, 2009

CAO File No. 0220-04522-0000

Council File No. -

Council District: -

To: The Mavor

From: Miguel A. Santana, City Administrative Officer *MAS*

Reference: Letter from the General Manager, Department of Water and Power, dated August 19, 2009; referred for report August 24, 2009

Subject: **PROPOSED ISSUANCE OF \$980 MILLION OF WATER SYSTEM REVENUE BONDS**

SUMMARY

The Department of Water and Power (DWP) requests approval of the Board of Water and Power Commissioners Resolution No. 4811 (Resolution) which authorizes the issuance of up to \$980 million in Water System Revenue Bonds, in order to finance a majority of the Water System's Capital Improvement Program for the Fiscal Years 2009-10 and 2010-11. The DWP Water System Capital Program for fiscal years 2009-2014 is focused on critical projects necessary to protect existing water supplies; comply with increasing water quality standards; expand and upgrade the existing water distribution system; and develop new water resources. The Department states that the Resolution is an 'initial resolution' of the Board of Water and Power Commissioners (Board), which sets forth the purpose for future indebtedness and establishes the maximum limit as to principal, interest costs, and term. The Resolution also provides for the private sale of the bonds to one or more underwriting firms selected by the Board pursuant to City Charter Section 609 (d) and Los Angeles Administrative Code Section 11.28.4 (the Procedural Ordinance).

BACKGROUND

Developed as part of the DWP Water Services Organization's overall Business Plan, the Water Capital Program's strategic priority is to ensure the safe and cost-effective delivery of water to the City's rate paying customers. The Water Capital Program for fiscal years 2009-10 and 2010-2011 consists of a number of major components including:

- Water recycling (Tier 2A recycling "purple pipe"; Tier 2B groundwater recharge; and Harbor Water Recycling Units 1-3)
- Trunk line replacements and additions (First Street; City Trunkline South Unit 2; River Supply conduit Unit 3; River Supply Conduit Unit 4; and other trunk line projects)
- Chloramination Station Installations (Van Norman Chloramination Station 1 and

- Station 2 ; North Hollywood Ammoniation Station ; and other projects)
- Distribution main replacements (citywide)
- Distribution systems and meters (service installations; meter change-outs and replacements)
- General facilities programs (various building and service yard improvements)
- Reservoir improvements (Bull Creek realignment; Santa Ynez; Headworks Reservoir; Upper Stone Canyon Reservoir)
- Groundwater management (San Fernando Basin stormwater recharge/ capture)
- Aqueduct system improvements (Owens Valley/Mono Basin flow controls, meters, & pumpback stations; tunnel relining and sag pipe improvements)
- Infrastructure systems and fire hydrants (citywide)
- Owens Valley Dust Mitigation and Dust Control Development Phase 7
- Security technology and other infrastructure support installations (reservoir perimeter fencing; water quality monitoring and security; various systems upgrades)

In order to support an overall planned \$1.17 billion capital improvement program during this period, a combination of borrowing and internally generated funds will be required. The Department's two-year financial plan for the Water System, as approved by the Board on June 16, 2009, includes the need to borrow approximately \$980 million of tax-exempt revenue bonds during Fiscal Years 2009-10 and 2010-11. The intent of this Resolution is to provide the DWP with flexibility to issue bonds either on a combined basis or separately within the current or subsequent fiscal year, based upon the rate of capital project spending. The maximum interest cost to be incurred through the issuance of the bonds is twelve percent per annum.

In developing a method of financing the Capital Program, the Department has requested authority to conduct private, negotiated sales of bonds to one or more investment banking firms. Listed below are the firms selected by the Board to serve as the Department's underwriting team, pursuant to the Procedural Ordinance.

| Department of Water and Power Selected Underwriting Team | |
|--|---------------------------------------|
| • Citigroup Global Markets, Inc. | • Backstrom McCarley Berry & Co., LLC |
| • E.J. De La Rosa & Co., Inc. | • Fidelity Capital Markets Services |
| • Goldman Sachs & Co.. | • Loop Capital Markets, LLC |
| • JP Morgan Securities Inc. | • Ramirez & Co., Inc. |
| • Morgan Stanley & Co., Inc. | • RBC Capital Markets, Inc. |
| • Siebert Branford Shank & Co., LLC | • Wachovia Bank, National Association |

Charter Section 609 Compliance

Section 609 of the City Charter requires that the Council and Mayor approve issuance of debt for the proprietary departments. Although the City's Debt Management Policy states that the issuance of debt shall be through a competitive sale whenever feasible, Section 609 (d) allows the private sale of bonds subject to the following conditions:

- The Board has authorized the sale of bonds pursuant to private sale after written recommendation of the Chief Financial Officer stating the reasons why a private sale will benefit the Department;
- The Council, after receiving a report from the City Administrative Officer, has approved the sale; and
- The Council be provided an opportunity, as set forth in the Procedural Ordinance, to disapprove the selection by the department of the underwriting firm(s) for the private sale of bonds

In complying with the Charter provisions, the DWP Chief Financial Officer (CFO) provided a report recommending the private sale of the proposed bond issuance (Attachment I). Among the benefits to the DWP of a private sale, the CFO states that this type of issuance allows for favorable interest rates; provides meaningful opportunities for local and regional Small Business Enterprises; coordinates the timing of a volatile interest rate environment; and offers the ability to structure specific portions of the issuance to meet investor demand. In a written opinion dated August 13, 2009, the DWP's financial advisor, Public Resources Advisory Group, also expressed support for the use of private, negotiated bond sales for the proposed issuance (Attachment II).

Competitive v. Negotiated Bond Sale

The advantages and disadvantages of a competitive versus negotiated bond sale can be debated on their own individual merits. Charter Section 609 and the City's adopted Debt Management Policy require the sale of revenue bonds through a competitive basis. This Office has traditionally advocated for the issuance of bonds through a competitive sale, as competitive sales are conducted through an open process and most often result in the lowest cost of borrowing to the City. However, with respect to this issuance, a negotiated sale may be more advantageous to the DWP. A negotiated sale would allow for additional explanation of the water recycling efforts and groundwater capture in order to develop sufficient market interest as well as to explain why the bonds are a solid investment. In addition, due to the size of the proposed negotiated sale, the ability of the DWP to meet departmental Outreach Program goals for minority, women and other business enterprises in actively promoting participation in the sale of Department revenue bonds would be enhanced.

Indebtedness

As of June 30, 2006, the Water System reported approximately \$1.93 billion in long-term debt consisting of revenue bonds and refunding revenue bonds payable from the Water Revenue Fund. A detail of overall long-term debt information is included in Attachment III.

The following table identifies recent Water System long-term debt activity.

| Water System Long-Term Debt Activity - New Issuances | | | | |
|---|-----------------|-------------|----------------------|----------------|
| <i>Fiscal</i> | | | | <i>Type of</i> |
| <i>Year</i> | <i>Issuance</i> | <i>Rate</i> | <i>Purpose</i> | <i>Sale</i> |
| 2009 | 150.0 million | Fixed | Capital Improvements | Negotiated |
| 2007 | \$295.9 million | Fixed | Capital Improvements | Negotiated |
| 2006 | \$482.2 million | Fixed | Capital Improvements | Negotiated |

Source: Department of Water & Power - Financial Services Organization

The American Recovery and Investment Act (ARRA) – Build America Bonds (BAB)

The ARRA of 2009 provides for direct funding and subsidies to state and local governments through the Build America Bonds (BAB) program. This program authorizes government entities to issue taxable bonds in lieu of tax exempt bonds for governmental purposes in 2009 and 2010. The Federal Government will reimburse the issuer 35 percent of the interest payment on bonds issues under BAB. There is no limitation on the amount qualified that can be issued under BAB; however, the bonds must be issued no later than December 31, 2010. The procedural funding mechanism is yet to be identified by the Federal Government; however, the qualification standards clearly apply to the two year DWP Bond issue.

Based on estimates from DWP for the fixed rate BAB transactions completed since April 2009, the net interest cost appears favorable when compared to the interest cost of tax-exempt bonds, which continues to be monitored by DWP staff. The Department indicates that the taxed Bonds will increase the pool of investors from a California only pool to include other states, which increases the chances of receiving purchases from additional investors. The current interest rate environment and the BAB program can provide the water system with an opportunity to lower its interest cost by issuing bonds to finance the capital program at favorable interest rates.

RECOMMENDATION

That the Mayor approve the Board of Water and Power Commissioners' Resolution No. 4811 authorizing the Department of Water and Power to issue \$980 million in Water System Revenue Bonds through private sales and approve the use of the proposed underwriters and return for further processing, including Council consideration.

FISCAL IMPACT STATEMENT

The Department of Water and Power estimates the net impact of this issuance will be to increase debt service costs of the Water Revenue Fund by approximately \$58,753,000 annually. One-time costs of issuance from the Water Revenue Fund are estimated at \$7,781,000 representing 0.79 percent of the total bond issuance. One-time costs consist of bond insurance; underwriter's discount; bond counsel, financial advisor; and ratings agencies fees. The annual cost over the 30-year term of the \$980 million bond issue, including principal and interest, is approximately \$1,762,600,000. There is no projected impact on the City General Fund.

TIME LIMIT FOR COUNCIL ACTION

Pursuant to Charter Section 609, the issuance of Revenue Bonds shall be transmitted to the Council and Mayor for their approval or disapproval. The Charter does not specify a time limit for this action by the Council and Mayor. The Los Angeles Administrative Code Section 11.28.2 (the Procedural Ordinance) "Revenue Bonds and Other Obligations", states the "Time Period" shall consist of the longer of thirty (30) calendar days or five (5) consecutive Council meetings (convened in regular session) following the receipt by the Council from the City Clerk of certified copies of such resolution.

MAS:OAV:10100050

Attachments

Attachment 1

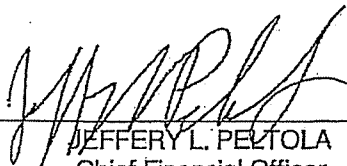
CHIEF FINANCIAL OFFICER'S REPORT

Private Sale of Los Angeles Department of Water and Power, Water System Revenue Bonds

This report is being delivered in connection with the proposed private sale of Los Angeles Department of Water and Power, Water System Revenue Bonds (Bonds), pursuant to Charter Section 609.

The Water System's financial plan for Fiscal Year 2009-2010, approved by the Board of Water and Power Commissioners (Board) on June 16, 2009, indicates a need to borrow approximately \$980 million over two years, starting in Fiscal Year 2009-2010, to support its planned \$1.17 billion capital improvement program over the same period. Depending on the rate of capital spending, the authorization will provide the Financial Services Organization (FSO) the flexibility to issue the Bonds either on a combined basis or separately within the current or following year. If separately, the combined authorization will facilitate the issuance of the Bonds for the second fiscal year expeditiously. The current interest rate environment also provides the Water System with an opportunity to lower its effective interest cost by issuing bonds to finance Fiscal Years 2009-2010 and 2010-2011 capital programs at historically favorable interest rates:

Due to the size of the proposed bond issue, efforts to provide a meaningful opportunity for minority, women and other business enterprises to participate in the sale of the Bonds consistent with the goals set forth in the Department's Outreach Program, the desire to coordinate the timing of what continues to be a volatile interest rate environment, and the desire to implement a retail order period aimed at reducing borrowing costs, I have determined that a private sale of the Bonds would be of benefit to the Department and recommend the private sale of the Bonds as provided in the attached Resolution No. 4811.



JEFFERY L. PELTOLA
Chief Financial Officer

Attachment 2



40 RECTOR STREET, SUITE 1600
NEW YORK, NEW YORK 10006
TEL: (212) 566-7800 | FAX: (212) 566-7816

PUBLIC RESOURCES ADVISORY GROUP

August 13, 2009

Mr. Mario Ignacio
Assistant CFO and Treasurer
Department of Water and Power of
the City of Los Angeles
111 North Hope Street
Los Angeles, CA 90012

Dear Mr. Ignacio:

The Department of Water and Power of the City of Los Angeles (the "Department") has requested that Public Resources Advisory Group ("PRAG"), as financial advisor to the Department, discuss the merits of a negotiated bond transaction for the issuance of new money related to the Department's Water System ("Water Bonds"). It is our understanding that the sales of Water Bonds will equal up to \$980 million and may be issued as traditional Water System Revenue Bonds and/or Build America Bonds.

The benefits of negotiated versus competitive sales have been analyzed by municipal market participants for many years. The debate will continue into the future due to the rare frequency (or possible absence) of simultaneous negotiated and competitive bond pricings for the same issuer and same credit. In general, however, PRAG believes that all things being equal a competitive sale will provide an issuer with the lowest cost of funds for the majority issuances, but not necessarily in all cases. Other important factors and market circumstances have a pronounced affect on the decision for issuers to negotiate bond sales. The following are some of the factors that the Department faces with the upcoming sales of Water Bonds that support the decision to issue bonds on a negotiated basis:

- Negotiated sales will allow for the Department to provide meaningful roles for local and regional firms;
- Negotiated sales permit the use of retail order periods and retail investors can be an important factor in the market, as the retail buyer is less sensitive to price compared to the institutional investor;
Negotiated sales allow the Department to structure specific portions of the issuance to meet investor demand (such as, bifurcated coupons, callable premium bonds, non-callable bonds, specified par amounts, non-traditional couponing and similar features);
- Negotiated bond sales allow the Department to attempt to avoid the recent high volatility in the public capital markets, resulting from wide shifts in credit spreads, interest rates and investor demand, through increased flexibility in timing the pricing of debt.

INDEPENDENT FINANCIAL ADVISORS



In our opinion, the factors above should be considered by the Department when making the decision to issue bonds on a negotiated sale basis. I hope the foregoing meets your needs. Please call Ed Soong 310-477-1453 or me at 212-566-7800 if you have any questions on this matter.

Sincerely,

A handwritten signature in cursive script that reads "William W. Cobbs".

William W. Cobbs
Chairman

Department of Water and Power



the City of Los Angeles

ANTONIO R. VILLARAIGOSA
Mayor

Commission
LEE KANON ALPERT, *President*
EDITH RAMIREZ, *Vice President*
FORESCEE HOGAN-ROWLES
JONATHAN PARFREY
THOMAS S. SAYLES
BARBARA E. MOSCHOS, *Secretary*

H. DAVID NAHAI,
Chief Executive Officer and General Manager

2009 AUG 28 PM 2:45
CITY ADMINISTRATIVE OFFICER

Date: August 19, 2009
To: The Honorable Antonio R. Villaraigosa
Mayor of the City of Los Angeles
Attention: Ms. Pamela Finley, Legislative Coordinator
From: H. David Nahai, Chief Executive Officer and General Manager
Subject: Resolution Authorizing \$980 Million Water System Revenue Bonds

In accordance with Executive Directive No. 4, enclosed is a copy of a Board Report and Resolution recommending approval and transmittal to the Los Angeles City Council Authorizing issuance of \$980 million of Water System Revenue Bonds to finance a portion of the Water System's capital improvement program over the next two years, starting October 1, 2009.

It is respectfully requested that your review be completed as soon as possible. Once the required City Administrative Office report has been received, the matter will be scheduled for action by the Los Angeles Board of Water and Power Commissioners and forwarded to the Los Angeles City Council for final consideration.

Please contact Winifred J. Yancy, Manager of Government and Neighborhood Relations, at (213) 367-0025 upon completion of the review or if the review will take longer than 30 days. If there are any questions regarding this item, please contact Ms. Yancy or Mario C. Ignacio, Assistant Chief Financial Officer and Treasurer, at (213) 367-0690.

JD:jms.

Enclosures

c/enc: S. David Freeman, Mayor's Office
David J. Libatique, Mayor's Office
Board of Water and Power Commissioners (6)
Winifred J. Yancy
Mario C. Ignacio

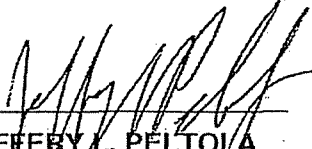
Water and Power Conservation ... a way of life

111 North Hope Street, Los Angeles, California 90012-2607 Mailing address: Box 51111, Los Angeles 90051-5700
Telephone: (213) 367-4211 Cable address: DEWAPOLA

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LADWP BOARD APPROVAL LETTER

| | |
|---|---|
| TO: BOARD OF WATER AND POWER COMMISSIONERS | DATE: |
| <div style="display: flex; justify-content: space-around;"><div style="text-align: center; width: 45%;"><hr/>RAMAN RAJ Chief Operating Officer</div><div style="text-align: center; width: 45%;"><hr/>H. DAVID NAHAI Chief Executive Officer and General Manager</div></div> <div style="text-align: center; margin-top: 20px;"><hr/>JEFFERY L. PELTOLA Chief Financial Officer</div> | SUBJECT: <p style="text-align: center;">Authorization to Issue up to \$980 Million of Water System Revenue Bonds</p> |
| | FOR COMMISSION OFFICE USE: |
| CITY COUNCIL APPROVAL REQUIRED: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> | IF YES, BY WHICH CITY CHARTER SECTION: 609 |

PURPOSE

Transmitted herewith for your consideration is Resolution No. 4811, which, if adopted, would authorize the issuance of up to a maximum of \$980 million of Water System Revenue Bonds (Bonds), payable out of the Water Revenue Fund. The Bonds will be used to finance a majority of the Water System's capital improvement program for the Fiscal Years 2009-2010 and 2010-2011.

Resolution No. 4811 is an "initial resolution" of the Board of Water and Power Commissioners (Board), setting forth the purpose for future indebtedness and establishing the maximum limit as to principal, interest costs, and term. Resolution No. 4811 also provides for the private sale of the Bonds to one or more of the firms included in the team of underwriting firms selected by the Board pursuant to the Procedural Ordinance. The Financial Services Organization (FSO) will present "supplemental resolutions" that will authorize the specific terms and conditions for the Bonds, including the lead underwriters that will be selected from among the Department's investment banking team members and the principal financing documents related to the Bonds, at a future Board meeting.

BACKGROUND

The Water System's five-year financial plan for Fiscal Year 2009-2010, approved by the Board on June 16, 2009, reflected a need to borrow approximately \$980 million over the next two years in order to support its planned \$1.17 billion capital improvement program over the same period. This authorization will provide FSO the flexibility to issue the

Bonds either on a combined basis or separately within the current or next year, depending on the rate of capital spending. If separately, the authorization will facilitate the issuance of the Bonds for the second fiscal year expeditiously.

The American Recovery and Reinvestment Act (ARRA) of 2009 provides direct funding and subsidies to state and local governments. One of the programs is the New Taxable Bond Option also called Build America Bonds (BAB), where governmental entities can elect to issue taxable bonds in lieu of tax exempt bonds for governmental purposes for bonds issued in 2009 and 2010. The Federal Government would reimburse the issuer 35 percent of the interest payment for BAB. There is no limitation on the amount of BAB that can be issued; however, the program requires that BAB be issued not later than December 31, 2010. Based on the fixed-rate BAB transactions completed since April 2009, the net interest cost appears favorable when compared to tax-exempt interest cost. The current interest rate environment and the BAB program provide the Water System with an opportunity to lower its effective interest cost by issuing bonds to finance Fiscal Years 2009-2010 and 2010-2011 capital programs at historically favorable interest rates.

The proceeds from the issuance of these bonds will be deposited into the Construction Fund of the Water System and would be drawn down to fund a portion of its capital improvement program.

Both the Department's Chief Financial Officer (CFO) and Public Resources Advisory Group (PRAG) recommend the Bonds be sold on a negotiated basis (i.e., private sale). The CFO's Report in connection with the proposed private sale, as required by Charter Section 609, is attached. Also attached is the report setting forth PRAG's opinion with respect to a private sale.

COST AND DURATION

The total estimated costs for a \$980 million bond issue, including principal and interest, is approximately \$1,762,600,000.00 over 30 years based on current interest rates for tax-exempt bonds and BAB. The debt issuance costs are estimated at \$7,781,000.00 representing 0.79 percent of the total bond issue which includes underwriter's discount, bond counsel, financial advisor, and rating agencies fees.

FUNDING SOURCE

Financial transactions for principal and interest payments are budgeted and funded under the Water Revenue Fund:

| | |
|----------------------|---|
| Fiscal Year: | Fiscal Year 2009-2010 through Fiscal Year 2013-2014 |
| Functional Item No.: | 303-3200 |
| Location in Budget: | Joint Book, FI details tab, page 16 of 55 |

FISCAL IMPACT STATEMENT

Resolution No. 4811 would increase future principal and interest costs of the Water Revenue Fund by approximately \$58,753,000.00 annually.

ENVIRONMENTAL DETERMINATION

In accordance with the California Environmental Quality Act (CEQA), it has been determined that this action is exempt pursuant to the General Exemption described in the CEQA Guidelines, Section 15061(b)(3). General Exemptions apply in situations where it can be seen with reasonable certainty that there is no possibility that the activity in question may have a significant effect on the environment.

CONFLICT OF INTEREST STATEMENT

All conflict of interest procedures were followed. No conflict of interest issues were identified.

RECOMMENDATION

Mayoral and City Council approval is required.

In accordance with the Mayor's Executive Directive No. 4, the City Administrative Officer's Report is attached.

It is recommended that your Honorable Board adopt Resolution No. 4811.

MCI/JD:jms

Attachments

c/att: H. David Nahai

Raman Raj

Richard M. Brown

Aram Benyamin

James B. McDaniel

Cecilia K.T. Weldon

Jeffery L. Peltola

Maria Sison-Roces

Mario C. Ignacio

Judith Daco

**INITIAL RESOLUTION
OF THE BOARD OF WATER AND POWER COMMISSIONERS
OF THE CITY OF LOS ANGELES**

**Authorizing the Borrowing of Up to \$980,000,000 Pursuant to Section 609 of
The Charter of The City of Los Angeles Through the Issuance of
Revenue Bonds Payable from the Water Revenue Fund**

Resolution No. 4811

**BE IT RESOLVED BY THE BOARD OF WATER AND POWER COMMISSIONERS OF
THE CITY OF LOS ANGELES:**

Section 1. This Board of Water and Power Commissioners of the City of Los Angeles (the "Board") hereby determines that the public interest and necessity demand that the Department of Water and Power of the City of Los Angeles (the "Department") should borrow money pursuant to Section 609 of The Charter of The City of Los Angeles (the "Charter") for the purposes specified in Section 3 of this Resolution, and should issue and sell revenue bonds as herein provided (the "Bonds") payable from the Water Revenue Fund to evidence the indebtedness created by such borrowing.

Section 2. The Board hereby authorizes the issuance of the Bonds pursuant to the provisions of Section 609 of the Charter for the purposes specified in Section 3 of this Resolution.

Section 3. The Bonds are to be issued for the purpose of acquiring, constructing, installing, reconstructing, replacing, extending and/or improving water, water rights of every nature, lands, rights-of-way, sites, facilities and/or property used for the capture, transportation, distribution and/or delivery of water for the benefit of the City of Los Angeles (the "City"), its inhabitants and its customers including, without limitation, the acquisition of all necessary or convenient easements and other rights with respect to land, water transportation facilities and interests therein and rights thereto, and the acquisition, construction and/or installation of all necessary or convenient facilities, structures, machinery, equipment, apparatus, materials and other property and property rights in connection with the Water Assets (as defined in the Charter).

Section 4. The maximum principal amount of the Bonds authorized by this Resolution is

NINE HUNDRED EIGHTY MILLION DOLLARS (\$980,000,000)

and said Bonds are to be issued in one or more series or subseries at such time or times as the Board may determine.

Section 5. The maximum term for which any Bond is to run is forty-five years from the date of issuance of such Bond.

Section 6. The maximum interest cost to be incurred through the issuance of any Bond shall be twelve percent (12%) per annum. The manner of determining interest cost for the purpose of determining whether such interest cost is within such maximum is to ascertain the annual rate, compounded semiannually, such that the amounts payable on the Bond on the respective

principal (including mandatory sinking fund redemptions) and interest payment dates discounted at such rate to the original issue date of the Bond is equal to the purchase price (net of accrued interest) of the Bond.

Section 7. This Board has received a report (the "Report") of the Chief Financial Officer of the Department stating that such officer has determined that a private sale of the Bonds will be of benefit to, and in the financial interests of, the Department and providing the reasons therefor. As authorized by subsection (d) of Section 609 of the Charter and Section 11.28.4 of Ordinance No. 172,353 of the City, as amended, constituting Article 6.5 of Chapter 1 of Division 11 of the Los Angeles Administrative Code (the "Procedural Ordinance"), this Board hereby authorizes the private sale of each series and subseries of the Bonds to one or more of the firms included in the team of underwriting firms selected by the Board pursuant to Section 11.28.4(b) of the Procedural Ordinance as such team is composed at the time of the sale of such series or subseries; provided, however, that underwriters' discount (exclusive of initial issue discount) with respect to the Bonds shall not exceed one percent of the principal amount of the Bonds and any initial issue discount with respect to the Bonds shall not exceed ten percent of the principal amount of the Bonds to which such initial issue discount shall apply.

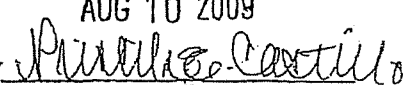
Section 8. The authorization of the issuance of the Bonds made by this Resolution is in addition to any and all other authorizations of the issuance of bonds on account of the Water System heretofore made by resolution of this Board.

Section 9. The Secretary of this Board shall forthwith transmit certified copies of this Resolution, together with the Report of the Department's Chief Financial Officer, to the offices of the Mayor, the City Clerk and the City Administrative Officer (previously the Director of the Office of Administrative and Research Services) pursuant to Subsections (a) and (d) of Section 609 of the Charter and Sections 11.28.2 and 11.28.4 of the Procedural Ordinance.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a resolution adopted by the Board of Water and Power Commissioners of the City of Los Angeles at its meeting held _____, 2009.

Secretary

APPROVED AS TO FORM AND LEGALITY
CARMEN A. TRUTANICH, CITY ATTORNEY

AUG 10 2009
BY 
PRISCILA E. CASTILLO
DEPUTY CITY ATTORNEY


CHIEF FINANCIAL OFFICER'S REPORT

Private Sale of Los Angeles Department of Water and Power, Water System Revenue Bonds

This report is being delivered in connection with the proposed private sale of Los Angeles Department of Water and Power, Water System Revenue Bonds (Bonds), pursuant to Charter Section 609.

The Water System's financial plan for Fiscal Year 2009-2010, approved by the Board of Water and Power Commissioners (Board) on June 16, 2009, indicates a need to borrow approximately \$980 million over two years, starting in Fiscal Year 2009-2010, to support its planned \$1.17 billion capital improvement program over the same period. Depending on the rate of capital spending, the authorization will provide the Financial Services Organization (FSO) the flexibility to issue the Bonds either on a combined basis or separately within the current or following year. If separately, the combined authorization will facilitate the issuance of the Bonds for the second fiscal year expeditiously. The current interest rate environment also provides the Water System with an opportunity to lower its effective interest cost by issuing bonds to finance Fiscal Years 2009-2010 and 2010-2011 capital programs at historically favorable interest rates.

Due to the size of the proposed bond issue, efforts to provide a meaningful opportunity for minority, women and other business enterprises to participate in the sale of the Bonds consistent with the goals set forth in the Department's Outreach Program, the desire to coordinate the timing of what continues to be a volatile interest rate environment, and the desire to implement a retail order period aimed at reducing borrowing costs, I have determined that a private sale of the Bonds would be of benefit to the Department and recommend the private sale of the Bonds as provided in the attached Resolution No. 4811.



JEFFERY L. PELTOLA
Chief Financial Officer



40 RECTOR STREET, SUITE 1600
NEW YORK, NEW YORK 10006
TEL: (212) 566-7800 | FAX: (212) 566-7816

PUBLIC RESOURCES ADVISORY GROUP

August 13, 2009

Mr. Mario Ignacio
Assistant CFO and Treasurer
Department of Water and Power of
the City of Los Angeles
111 North Hope Street
Los Angeles, CA 90012

Dear Mr. Ignacio:

The Department of Water and Power of the City of Los Angeles (the "Department") has requested that Public Resources Advisory Group ("PRAG"), as financial advisor to the Department, discuss the merits of a negotiated bond transaction for the issuance of new money related to the Department's Water System ("Water Bonds"). It is our understanding that the sales of Water Bonds will equal up to \$980 million and may be issued as traditional Water System Revenue Bonds and/or Build America Bonds.

The benefits of negotiated versus competitive sales have been analyzed by municipal market participants for many years. The debate will continue into the future due to the rare frequency (or possible absence) of simultaneous negotiated and competitive bond pricings for the same issuer and same credit. In general, however, PRAG believes that all things being equal a competitive sale will provide an issuer with the lowest cost of funds for the majority issuances, but not necessarily in all cases. Other important factors and market circumstances have a pronounced affect on the decision for issuers to negotiate bond sales. The following are some of the factors that the Department faces with the upcoming sales of Water Bonds that support the decision to issue bonds on a negotiated basis:

Negotiated sales will allow for the Department to provide meaningful roles for local and regional firms;

Negotiated sales permit the use of retail order periods and retail investors can be an important factor in the market, as the retail buyer is less sensitive to price compared to the institutional investor;

- Negotiated sales allow the Department to structure specific portions of the issuance to meet investor demand (such as, bifurcated coupons, callable premium bonds, non-callable bonds, specified par amounts, non-traditional couponing and similar features);
- Negotiated bond sales allow the Department to attempt to avoid the recent high volatility in the public capital markets, resulting from wide shifts in credit spreads, interest rates and investor demand, through increased flexibility in timing the pricing of debt.

INDEPENDENT FINANCIAL ADVISORS



In our opinion, the factors above should be considered by the Department when making the decision to issue bonds on a negotiated sale basis. I hope the foregoing meets your needs. Please call Ed Soong 310-477-1453 or me at 212-566-7800 if you have any questions on this matter.

Sincerely,

A handwritten signature in cursive script that reads "William W. Cobbs".

William W. Cobbs
Chairman